



## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR JULY 13, 2009**

Iran's OPEC  
governor, Ali  
Mohammad Ali  
Khatibi, said the oil  
market is still  
slightly  
oversupplied and

#### Market Watch

The strength in the August ICE Brent futures contract caused brief backwardation of the August/September spread on Monday, the first time this has happened since July last year. The strength is due to the maintenance program in the North Sea, with some shorts getting squeezed.

any extra crude could be removed by an OPEC output cut or a rise in oil demand by year end. He said OPEC will decide on its crude production ceiling in September. However he said it has not scheduled an extraordinary meeting.

Nigeria's main militant group, the Movement for the Emancipation of the Niger Delta said it attacked a jetty used to offload oil tankers in Lagos, setting a depot and vessels on fire. Five oil workers were killed in the overnight attack at the Altas Cove Jetty. The continued violence has forced Royal Dutch Shell, Chevron and Italy's Agip to shutdown about 300,000 bpd of crude production in the last seven weeks. Nigeria's President Umaru Yar'Adua has offered a 60 day amnesty program to militants and criminals in hopes of halting the unrest. MEND leader Henry Okah was freed after treason charges against him were dropped on Monday.

The DOE reported that the US average retail price of diesel fell by 5.2 cents/gallon to \$2.542/gallon in the week ending July 13<sup>th</sup>. The price is the lowest since June 8<sup>th</sup> and the drop is the most in any week since February 23<sup>rd</sup>. It reported that the US average retail price of gasoline fell by 8.4 cents to \$2.528/gallon.

According to the Lundberg survey, the US average retail price of gasoline fell to \$2.56/gallon over the last two weeks. It said prices may fall further if the price of crude oil continues to fall and unemployment remains high.

#### **Refinery News**

According to Reuters, simple refiners in the Mediterranean turned positive for the first time since May. Simple refining margins on Urals crude increased to \$1.88/barrel over the last 5 days compared with an average of minus \$1.75 in June. Complex margins increased to \$2.59 last week from an average of 89 cents/barrel in June. In Rotterdam, margins at simple refineries cracking Brent crude more than doubled to \$2.97/barrel from \$1.22/barrel last week while complex margins increased to \$3.60 from \$2.28/barrel. In the US, margins for Gulf Coast refineries cracking Brent crude increased by more than 35%

#### **July Calendar Averages**

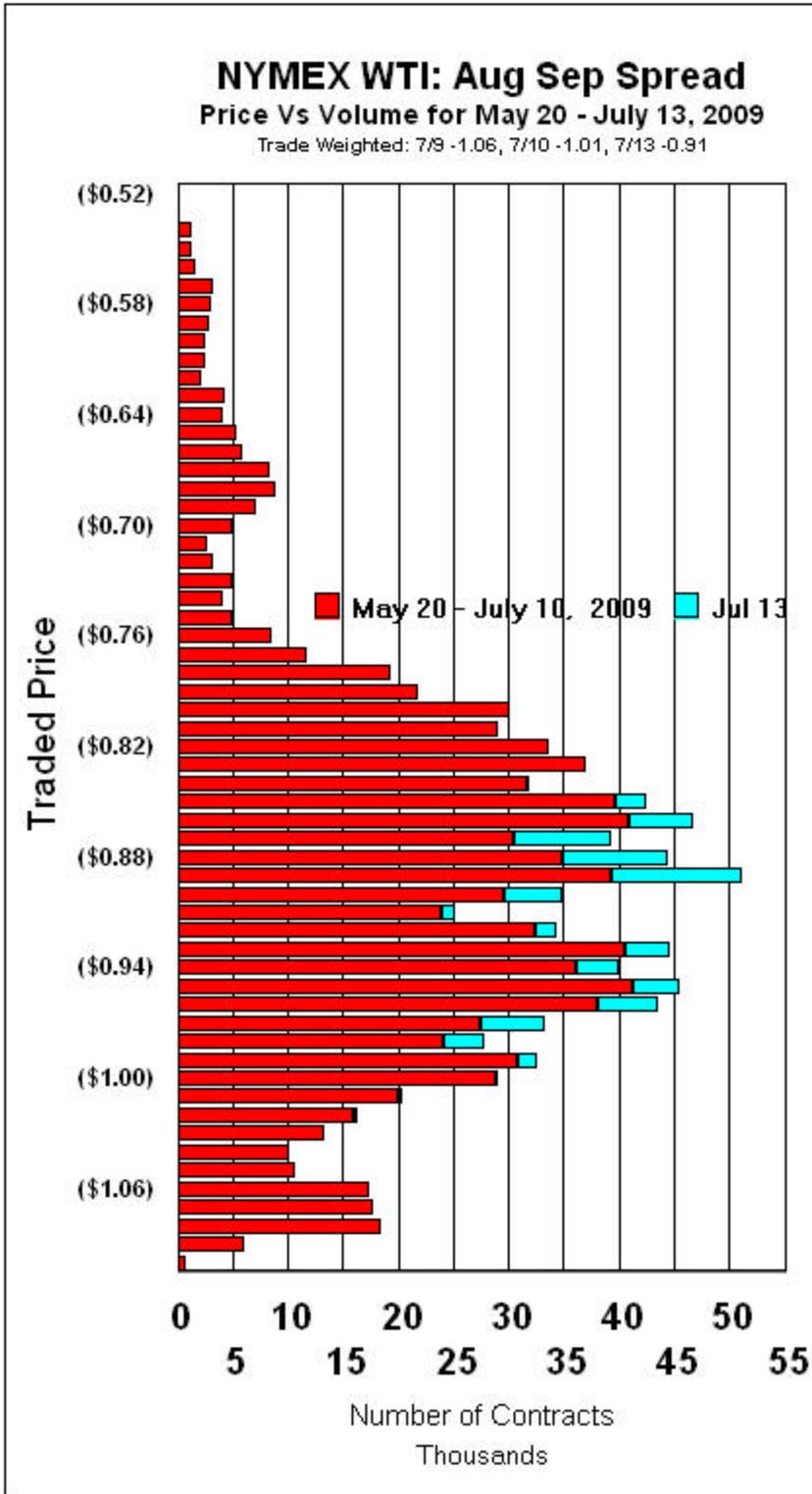
**CL – \$62.89**

**HO – \$1.6005**

**RB – \$1.7138**



Separately, South Korea's Hyundai Oilbank will keep its spot diesel exports in August steady on the month from 400,000 bpd in July. It however will cut spot diesel exports to 600,000 barrels in August from 900,000 in July due to lower refining margins. South Korea's GS Caltex will cut its spot diesel exports to zero in August from 600,000 barrels this month due to low refining margins.



Abu Dhabi's International Petroleum Investment Co is in talks with two international companies that can operate and partially own the Fujairah oil refinery project. The IPIC will make a decision on whether to proceed with the refinery next year. The refinery will likely have the capacity to process between 150,000 and 200,000 bpd.

Iran is seeking investment from China's oil firms to help build and upgrade its refining sector, as the country seeks to cut gasoline imports. China's PetroChina, Sinopec Corp and CNOOC were briefed last week by senior Iranian oil officials on a series of refining projects under Iran's planning board.

Japan has offered to sell 55,000 kl or 356,000 barrels of Indonesian Attaka crude for loading in September from its national reserves.

Ukraine's Fuel and Energy Ministry reported that the country reduced imports of gasoline to 794,000 tons in the first half of 2009 from 1.013 million tons in the same period of 2008. It also reported that gas oil imports fell to 837,304 tons in January-June 2009 from 1.637 million tons in the same period last year. It reported that Ukraine's refineries cut their gasoline production by 8% to 1.58 million tons while they increased their gas oil production by 3% to 1.615 million tons in January-June.

India's Bharat Petroleum Corp bought a total of 4 million barrels of crude oil for loading between August and September. It imported 2 million barrels of Azerbaijan's Azeri Light crude at a premium of about 30 cents to dated Brent. It bought 1 million barrels of Nigerian Qua Iboe from ExxonMobil and 1 million barrels of the Yemeni Masila grade.

Germany's MWV reported that the country's oil product sales in June 2009 totaled 5.86 million tons, up 0.5% on the year. It reported that its heating oil sales increased by 2.8% to 1.25 million tons while diesel fuel sales fell by 1% to 2.45 million tons and fuel oil sales fell by 0.8% to 430,000 tons. It also reported that Germany's gasoline sales increased by 1.5% on the year to 1.73 million tons.

### **Production News**

The American Petroleum Institute said US oil and gas drilling activity in the second quarter fell by 46% on the year as energy prices continued to curb production. An estimated 8,038 oil wells, natural gas wells and dry holes were completed in the second quarter of 2009. The number of exploratory oil and gas wells drilled fell by 63% in the second quarter to 336 wells compared with 2008 while the number of development wells fell by 46% to 6,761 wells.

ConocoPhillips said it will take some time to repair damage to the Ekofisk platform 24/W, which has shut in 23,000 bpd of oil production at the associated 24/A platform.

French oil company Perenco warned Ecuador that it could temporarily halt operations in the country if the government does not return the oil it confiscated over unpaid taxes. Ecuador has been seizing the majority of the company's production since March in a bid to collect more than \$350 million the company owes in windfall taxes. Perenco produces about 22,000 bpd from Ecuador's Amazon jungle. The company started a suit against Ecuador and its state oil company, Petroecuador, last year to dispute the legality of the windfall tax, saying the levy violates its contract.

The head of Iraq's State Oil Marketing Organization said the country exported an average 2.11 million bpd of crude during the last two weeks, the highest level since the US led invasion in 2003. He said the increase is the result of an improvement in output from southern oil fields. It exported 1.522 million bpd from southern terminals from July 1 to July 13 while 588,000 bpd were exported from the north. He said that crude production from Iraq's southern oil fields was at 1.78 million bpd in the last two weeks while output from Iraq's northern oil fields totaled 670,000 bpd.

Iraq's State Oil Marketing Organization cut the August official selling prices of its Basra and Kirkuk crude to most of its customers. Basra Light crude bound for the US in August was set at second WTI minus \$3.85/barrel, down \$1/barrel on the month. Basra Light crude bound for Europe was unchanged from July at dated Brent minus 20 cents/barrel while Basra Light crude bound for Asia was priced at the Oman/Dubai average plus 75 cents/barrel, down 55 cents on the month. Iraq's Kirkuk crude bound for the US was set at spot WTI minus \$3, down \$1.10 on the month while Kirkuk crude bound for Europe was set at dated Brent minus 55 cents/barrel, down 5 cents on the month.

The National Iranian Oil Co set the price of its Iranian Light crude bound for Northwest Europe to BWAVE minus \$1.65, up 5 cents on the month while its Iranian Heavy crude price was increased by 30 cents to BWAVE minus \$2.10 and its Forozan crude price was increased by 30 cents to BWAVE minus \$1.95. The price of its Iranian Light crude, its Iranian Heavy crude and Forozan crude bound for the Mediterranean was cut by 15 cents to BWAVE minus \$2.25, BWAVE minus \$2.90 and BWAVE minus \$2.75, respectively. Meanwhile, the price of its Iranian Light crude bound for Asia was cut by 10 cents to the Oman/Dubai average plus \$1.84, the price of its Iranian Heavy crude was increased by 30 cents to the Oman/Dubai average plus 38 cents and its Forozan crude was increased by 30 cents to the Oman/Dubai average plus 43 cents.

India's Oil Minister Murli Deora said the country's oil product demand is estimated to grow 2.4% to 136.61 million tons in the 2009/10 fiscal year. However he reported that the country's naphtha demand is forecast to fall 9.4% in the year.

Royal Dutch Shell Plc said it started production at its multi-field Parque das Conchas project offshore Brazil. It is a two phase project with initial production drawn from three fields, Abalone, Ostra and Argonauta B-West. It can process 100,000 bpd of crude oil and 50 million cubic feet/day of natural gas and store nearly 1.5 million barrels of oil for shipment to shore via tankers.

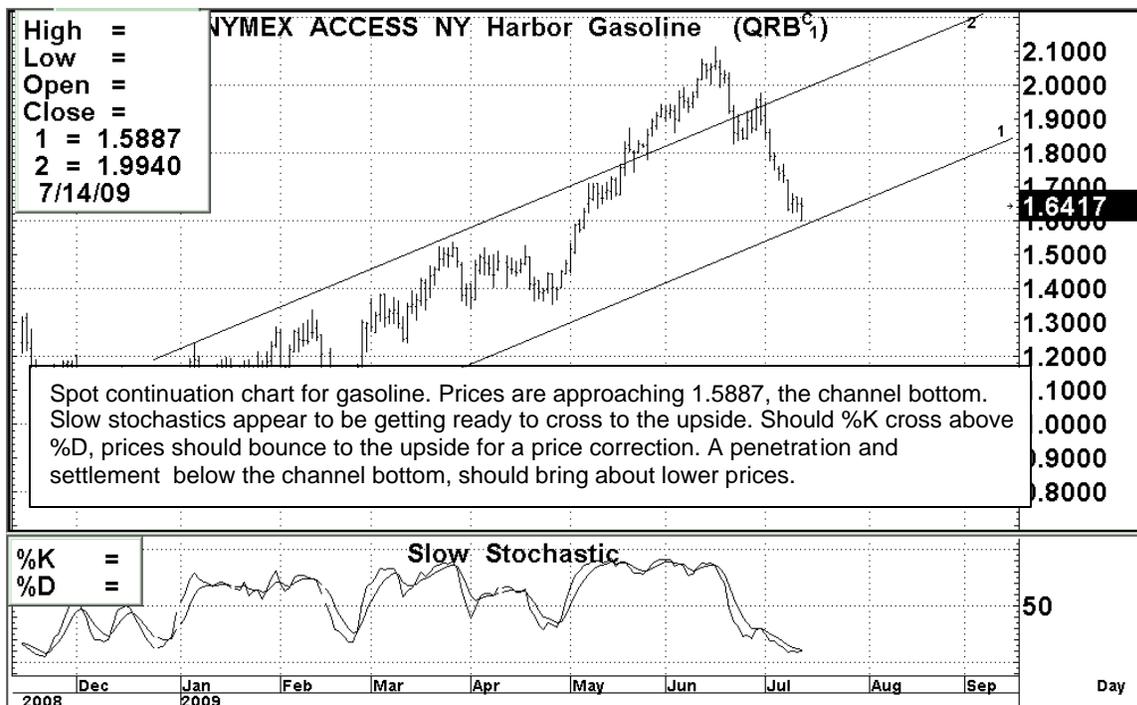
Ecuador's Rafael Correa said over the weekend that his government will renegotiate a contract with shareholders of the OCP pipeline because they have been evading taxes. However he did not give details about the renegotiation. While the refinery has the capacity to transport 450,000 bpd, the OCP currently transports about 130,000 bpd.

OPEC's news agency reported that the basket of crudes fell by 72 cents to \$59.86/barrel on Friday. It also reported that the value of the basket of crudes fell by \$6.59/barrel to \$61.64/barrel in the week ending July 10<sup>th</sup>.

### Market Commentary

Crude oil tumbled to an eight-week low on concerns that the economy will be slow to recover. Statements by U.S. Treasury Secretary, Timothy Geithner, that the American economy has "enormous challenges" ahead helped to change the trend of this market to be more reflective of its true fundamentals. With thoughts of fuel consumption sure to be impacted, gasoline fell to its lowest level since May 6, despite the fact that we are at the height of the U.S. summer driving season. The spot month contract for gasoline is approaching the channel bottom on a spot continuation chart, with slow stochastics trending in over sold territory. The bottom of this channel is set at \$1.5887 for tomorrow's trading session. A test at this level and failure to penetrate it should bring about a correction in prices. Likewise, successful penetrations and a settlement below this channel would be followed by lower prices.

Crude Oil AUG.09 168,217 -10,590 SEP.09 239,108 +25,711 OCT.09 77,452 +5,187 NOV.09 37,205 +4,561 Totals: 1,197,094 +32,441 N.Y. Heating Oil (HO) AUG.09 50,356 -1,640 SEP.09 46,281 -80



OCT.09 32,185 +13 NOV.09 17,124 +22 Totals: 287,130 -1,208 NEW YORK HARBOR RBOB (RB)  
 AUG.09 52,627 -4,263 SEP.09 61,355 +3,438 OCT.09 27,610 +209 NOV.09 12,331 +219 Totals:  
 196,111 +12.

<b>Crude Support</b>	<b>Crude Resistance</b>
59.43, 58.72, 57.57-57.52, 56.75, 55.45, 55.06, 54.49, 50.82	60.20, 60.89, 61.62, 62.68, 64.91, 65.65, 67.17, 68.50, 69.74, 70.10, 72.15, 73.90
<b>Heat Support</b>	<b>Heat resistance</b>
1.4959, 1.4944, 1.4801, 1.4758, 1.4590, 1.4062	1.54, 1.5460, 1.5689, 1.582, 1.591, 1.61, 1.6370, 1.6421, 1.6705, 1.6750, 1.7099, 1.77, 1.8291, 1.9090
<b>Gasoline support</b>	<b>Gasoline resistance</b>
1.6282, 1.6241, 1.6185, 1.5773, 1.5283, 1.5260, 1.5085, 1.4689, 1.3810	1.6707, 1.6791, 1.72, 1.74, 1.75, 1.7677, 1.80, 1.8696, 1.9506, 1.9807, 2.0650, 2.1600

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